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CHALLENGES OF AGRICULTURE CREDIT IN INDIA

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ABSTRACT

Agriculture plays a significant role in the Indian economy and provides employment and livelihood to a large section of the Indian population. Approximately 44% (as per ILO estimate of 2018) of the working population is employed in agriculture and allied sector. However, the contribution of agriculture to GDP has been declining from 52% in the 1950s to 30% in the 1990s and further below 20% from 2010 onwards as per data from Ministry of Statistics and Programme Implementation (MoSPI). In 2018-19, the share of Agriculture & Allied Gross Value Added (GVA) in overall GVA was 16% (Ministry of Agriculture and Farmers' Welfare (MoA&FW) Annual Report 2018-19). Economic Survey 2018-19 suggests that the growth rate in GVA (at 2011-12 prices) over past five-six years has been higher for livestocks, fishing and aquaculture as compared to crops. Allied activities contribute approximately 40% to agricultural output, whereas only 6-7% of agricultural credit flows towards allied activities. Despite these initiatives, there are several challenges confronting Indian agriculture such as diminishing and degrading natural resources, rapidly growing demand for food (not just for quantity but also for quality), stagnating farm incomes, fragmented land holdings and unprecedented climate change, which need to be tackled for long term sustainability and viability of Indian agriculture.

KEYWORDS: Agriculture, livelihood, population, challenges and credit.

INTRODUCTION:

Agricultural credit is considered as one of the most basic inputs for conducting all agricultural development programmes. In India, there is an immense need for proper agricultural credit as Indian farmers are very poor. From the very beginning, the prime source of agricultural credit in India was moneylenders. After independence, the Government adopted the institutional credit approach through various agencies like co-operatives, commercial banks, regional rural banks etc. to provide adequate credit to farmers, at a cheaper rate of interest. Moreover, with growing modernisation of agriculture during the post-green revolution period, the requirement of agricultural credit has increased further in recent years.

Agriculture plays a significant role in the Indian economy and provides employment and livelihood to a large section of the Indian population. Approximately 44% (as per ILO estimate of 2018) of the working population is employed in agriculture and allied sector. However, the contribution of agriculture to GDP has been declining from 52% in the 1950s to 30% in the 1990s and further below 20% from 2010 onwards as per data from Ministry of Statistics and Programme Implementation (MoSPI). In 2018-19, the share of Agriculture & Allied Gross Value Added (GVA) in overall GVA was 16% (Ministry of Agriculture and Farmers' Welfare (MoA&FW) Annual Report 2018-19). Economic Survey 2018-19 suggests that the growth rate in GVA (at 2011-12 prices) over past five-six years has been higher for livestocks, fishing and aquaculture as compared to crops. Allied activities contribute approximately 40% to agricultural output, whereas only 6-7% of agricultural credit flows towards allied activities.

One important characteristic of Indian agriculture is that it is mainly small holders' farming with an average landholding size of 1.08 hectares. The small and marginal farmers account for 86 per cent of all holdings and 47 percent of the operated area. They contribute more than 50% of the total agricultural and allied output. In smallholder farming, it remains a challenge to raise agricultural productivity and farmers' incomes. It requires appropriate solutions starting with easy access to modern inputs and then selling the produce in most remunerative markets. Institutional credit at reasonable cost all along the value chain is one such catalytic instrument that can facilitate the process by converting many subsistence farmers into vibrant commercial farmers. They can then diversify their agricultural operations in growing high value crops like fruits and vegetables, and engage in allied activities, like dairy, poultry, fishery, honey, beekeeping, etc. Allied has huge potential, which can be capitalised by improving credit flow towards it and by encouraging farmers to move towards allied activities.

From time to time, Government has given various policy thrusts, as a result of which, the Indian agriculture sector has not only become self-sufficient but has emerged as a net exporter of several commodities like rice, marine products, cotton, etc. Some of the important initiatives taken by the Government include the implementation of Interest Subvention Scheme (ISS) for providing credit for crop production at reduced interest rate, Soil Health Cards (SHC) for improving agricultural productivity, Pradhan Mantri Krishi Sinchai Yojana (PMKSY) to ensure irrigation facilities, Pradhan Mantri Fasal Bima Yojana (PMFBY), for providing a safety net against natural calamities and National Agriculture Market Scheme (e-NAM) for providing better price discovery through transparent auction process. There is also a renewed focus on allied activities to aid income of farmers.

Despite these initiatives, there are several challenges confronting Indian agriculture such as diminishing and degrading natural resources, rapidly growing demand for food (not just for quantity but also for quality), stagnating farm incomes, fragmented land holdings and unprecedented climate change, which need to be tackled for long term sustainability and viability of Indian agriculture.

Types of agricultural credit:

- ***Short term credit:*** The Indian farmers require credit to meet their short term needs viz., purchasing seeds, fertilizers, paying wages to hired workers etc. for a period of less than 15 months. Such loans are generally repaid after harvest.

- ***Medium-term credit:*** This type of credit includes credit requirement of farmers for a medium period ranging between 15 months and 5 years and it is required for purchasing cattle, pumping sets, other agricultural implements etc. Medium-term credits are normally larger in size than short term credit.

- ***Long term credit:*** Farmers also require finance for a long period of more than 5 years just for the purpose of buying additional land or for making any permanent improvement on land like the sinking of wells, reclamation of land, horticulture etc. Thus, the long term credit requires sufficient time for the repayment of such loan.

Sources of agriculture credit:

Apart from the moneylenders, cooperative credit sources and the government, nowadays, the long term and short term credit needs of institutions are also being met by National Bank for Agricultural and Rural Development (NABARD). Sources of agricultural credit can be broadly classified into institutional and non-institutional sources. Non-Institutional sources include moneylenders, traders and commission agents, relatives and landlords, but institutional sources include co-operatives, commercial banks including the SBI Group, RBI and NABARD.

Commercial banks:

In the initial period, the commercial banks of our country have played a marginal role in advancing rural credit. With the help of "village adoption scheme" and service area approach the commercial banks started to meet the credit and other requirements of the farmers. They also sponsored various regional rural banks for extending credit to small and marginal farmers and rural artisans just to save them from the clutches of village moneylenders.

Commercial banks are finding difficulty in advancing loans to the farmers particularly in respect of lending techniques, security, recovery etc. and are expected to overcome these gradually. But the commercial banks are not very much interested to advance loan to small and marginal farmers.

Government:

Another important source of agricultural credit is the Government of our country. These loans are known as taccavi loans and are lend by the Government during emergency or distress like famine, flood etc. The rate of interest charged against such loan is as low as 6 per cent. During 1990-91, the state Governments had advanced nearly Rs 350 crore as a short-term loan to agriculture. But the taccavi loan failed to become very much popular due to official red-tapism and corrup-

tion.

Credit facility to farmers:

Kissan credit card: The Kissan Credit Card (KCC) scheme was launched in 1998 with the aim of providing short-term formal credit to farmers. Owner cultivators, as well as tenant farmers, can avail loans to meet their agricultural needs under this scheme at attractive rates of interest. The government has also simplified the application process to increase interest among farmers. Repayment is also simplified and dependent on the harvesting season, reducing the farmers' debt burden.

Investment loan: Loan facility to the farmers is available for investment purposes in the areas viz. Irrigation, Agricultural Mechanization, Land Development, Plantation, Horticulture and Post-Harvest Management.

Interest subvention scheme: The interest subvention scheme for farmers aims at providing short term credit to farmers at the subsidised interest rate. The policy came into force with effect from Kharif 2006-07. The scheme is being implemented for the year 2018-19 and 2019-20.

The interest subvention will be given to Public Sector Banks (PSBs), Private Sector Banks, Cooperative Banks and Regional Rural Banks (RRBs) on use of own funds and to NABARD for refinancing to RRBs and Cooperative Banks.

The Interest Subvention Scheme is being implemented by NABARD and RBI.

Banks in India have made commendable progress in terms of scale and outreach of formal credit to the agriculture sector. From Rs. 31.71 billion in 1981, the outstanding advances to agriculture and allied activities have grown significantly to Rs.13694.56 billion in 2017-18 (16 per cent of total bank credit). The long-term trend in institutional agricultural credit revealed that over time, significant progress has been achieved in terms of scale. Agricultural credit as a percentage to Agriculture GDP increased from 10% in 1970s to 52% by 2018, which shows that banks have made significant progress in lending to agriculture. In India, scheduled commercial banks (79%) are the major players in supplying credit to agriculture sector followed by rural cooperative banks (15%), regional rural banks (5%) and micro finance institutions (1%). Small finance banks set up with the objective of deepening financial inclusion have started their operations recently. They would be catering to small and marginal farmers, low income households, small businesses and other unorganised entities.

REVIEW OF LITERATURE:

Being a recent move, there have been various researches on different aspects of the initiative ranging from the economical to social and ethical dimensions. Some of these researches retrieved through internet searches have been reviewed here.

Das et al., (2009) Credit is needed as an important indirect input among others to enhance productivity in agriculture.

Chisasa & Makina (2012) With modernization and mechanization of farming systems, farming communities require more farm investment. Since most of the farmers in developing countries are small and marginal with fragmented land holdings, they need credit for such investment. Due to lower rate of savings in these economies, the farmers lack sufficient owned-equity and hence resort to external borrowings.

Reddy (2012) When credit is not available on time and at reasonable rates from institutional (formal) sources, farmers are forced to pay exorbitant rates of interest to non-institutional (informal) lenders.

Pradhan (2013) raditionally when agriculture was mainly subsistence9based, informal moneylenders used to cater to credit needs of farmers which were comparatively small. After the Green Revolution across the world which initiated tremendous changes in the cropping pattern, the credit needs of farmers have increased spontaneously; and it was during this period that institutional sources of credit emerged as major players. This was the era when subsistence cropping was replaced by cash cropping. Later on, micro-finance emerged as an effective tool of providing credit to the rural communities.

OBJECTIVES :

The Main objectives of this paper is based on following headings:

- To Examine the Challenge of agriculture credit in India.
- To Evaluate the Solutions of agriculture credit in India.

METHODOLOGY:

The method used in this paper is descriptive-evaluative method. The study is mainly review based. It is purely supported by secondary source of data, i.e. books, journals, papers and articles and internet.

RESULTS AND DISCUSSIONS:

Agricultural Loan Disbursement in Bihar :

During the year 2018-19 target of Rs.16000.00 crores was fixed for disbursement for agriculture production loan through Primary Agricultural Credit Societies of the State.

Table 1: Disbursement in Kharif and Rabi season through Primary Agricultural Credit Societies

(Rs. In Crores)

Year	KHARIF Disbursement		RABI Disbursement		TOTAL Disbursement		Percentage Growth as compared to 2011-12
	Target	Disburse- ment	Target	Disburse- ment	Target	Disburse- ment	
2011-12	4500.00	4812.18	2000.00	2817.09	6500.00	7629.27	-
2012-13	5500.00	6575.93	3000.00	3767.15	8500.00	10343.08	135.57
2013-14	7800.00	8074.69	4200.00	4611.52	12000.00	12686.21	166.28
2014-15	9750.00	8528.70	5250.00	5069.18	15000.00	13597.88	178.28
2015-16	11700.00	9309.39	6300.00	4279.05	18000.00	13588.44	178.10
2016-17	9800.00	8017.41	5200.00	3924.00	15000.00	11941.41	157.76
2017-18	10000.00	8874.43	6000.00	4102.20	16000.00	12976.63	170.09
2018-19	11000.00	9803.86	5000.00	2793.57	16000.00	12597.43	165.11

Source: NABARD

Kisan Credit Card Yojana:

With a view to facilitate the member farmers Credit card scheme was introduced in 15 District which is now extended to all over the State through our District Central Co-operative Banks and Primary Agricultural Credit Societies.

Table 2: Dtribution of Kisan credit cards

Year	Total number of KCCs issued since inception
2011-12	4292172
2012-13	4564052
2013-14	4733963
2014-15	5151829
2015-16	5262534
2016-17	5403523
2017-18	5705808
2018-19	4614440

Source: NABARD

We are the major shareholders in the distribution of Kisan Credit Card of the State. As on 31.03.2019, out of the total 6194049 KCC distributed of the State, our share is 4614440 which constitute 74.49% of the total.

Short term crop loan at 0 % rate of Interest:

As per the decision of the State Govt. farmers are being provided crop loan up to rupees 3.00 lacs at 0 % rate of interest who are repaying the loan within time from 2012-13. For this interest subvention of 6 % is provided by the State Govt. and 5 % (2+3) by the Central Govt. From year 2012-13 to 2018-19 an amount of rupees 2797.70 crores is received from State Govt. and made available to the primary agricultural credit societies of the State.

Challenges of agriculture Credit:

Despite the impressive growth in formal agricultural credit, there are still several challenges that need to be tackled. Data on the average loan taken by agricultural households, as per the NABARD's Financial Inclusion Survey Report 2016-17, indicated that 72% of the credit requirement was met from institutional sources and 28% from non-institutional sources. The report further states that out of the total agricultural households, approximately 30 percent still avail credit from non-institutional sources. The problem of financial exclusion gets aggravated

due to lack of legal framework for landless cultivators as the absence of documentary evidence becomes a major hindrance for extending credit to this segment of the farming community, who take up cultivation work on oral lease. Further, the analysis of state wise flow of institutional agricultural credit has revealed uneven distribution of credit amongst states compared to their corresponding share in overall output. To a certain extent, such regional disparity is on account of variation in credit absorption capacity of these regions. Funds like Rural Infrastructure Development Fund (RIDF) have been created out of priority sector lending shortfall of banks and established with NABARD with the underlying philosophy of lending to state governments to facilitate creation of enabling rural infrastructure to deepen the credit absorption capacity in rural areas.

An analysis of sanctions from RIDF indicates that states with higher credit flow made higher demands for resources under the fund. On the contrary, states with lower credit flow were lagging in borrowing funds from RIDF. Thus, the least developed states which are already credit starved are getting lower share of funds from the RIDF. This highlights the need to break this vicious cycle and think of certain measures by which funds can be earmarked to the most backward/ credit starved regions to ensure speedier development of the most backward areas in the country. We may also have to think of ways to incentivise banks to lend in these backward areas so that both demand and supply side issues are addressed. These issues and challenges impinge on the efficiency, inclusiveness and sustainability of the agricultural credit system, which is a matter of concern.

The recommendations of the IWG include building up of an enabling ecosystem through digitisation of land records, reforming of land leasing framework, creation of a national level agency to build consensus among the state governments and central government with regard to agriculture-related policy reforms and innovative digital solutions to bridge the information gap between the banks and farmers for expediting the credit delivery process. Other policy interventions recommended are- suitable modifications in the Priority Sector Lending guidelines applicable to all banks and strengthening of credit delivery channels through Kisan Credit Cards, Self-Help Group Bank Linkage Programme, Farmer Producers Organisations, in a manner to make them more effective and efficient in ensuring credit flow to the credit starved regions of the country, as also to the excluded segments of the farming community. RBI would be initiating necessary steps for implementing these recommendations as these would go a long way in ensuring the long-term sustainability and viability of the Indian agriculture sector..

Technology has powered Indian agriculture time and again by helping overcome productivity stagnation, strengthening market linkages, and enhancing farm management. Globally, it has been established that technology adoption modernizes farmers' production practices and leads to uniform annual returns for farmers, reduced risk of crop failure, and increased yields.

Hence, at the macro level, the agricultural development policies should focus on leveraging technology with the goals of (i) achieving high growth by raising productivity (ii) inclusiveness by improving coverage of lagging regions, small and marginal farmers, landless/tenant/oral lessee and women farmers, and (iii) sustainability of agriculture.

- ***Insufficiency:*** In spite of the expansion of rural credit structure, the volume of rural credit in the country is still insufficient as compared to its growing requirement arising out of the increase in prices of agricultural inputs.

- ***Inadequate amount of sanction:*** The amount of loan sanctioned to the farmers by the agencies is also very much inadequate for meeting their different aspects of agricultural operations. Considering the amount of loan sanctioned as inadequate and insignificant, the farmers often divert such loan for unproductive purposes and thereby dilute the very purpose of such loan.

- ***Lesser attention of poor farmers:*** Rural credit agencies and its schemes have failed to meet the needs of the small and marginal farmers. Thus, lesser attention has been given on the credit needs of the needy farmers whereas the comparatively well-to-do farmers are getting more attention from the credit agencies for their better creditworthiness.

- ***Inadequate institutional coverage:*** In India, the institutional credit arrangement continues to be inadequate as compared to its growing needs. The development of co-operative credit institutions like Primary agricultural credit societies, land development banks, commercial banks and regional rural banks, have failed to cover the entire rural farmers of the country.

- ***Red tapism:*** Institutional agricultural-credit is subjected to red-tapism. Credit institutions are still adopting cumbersome rules and formalities for advancing loan to farmers which ultimately force the farmers to depend more on costly non-institutional sources of credit.

Solutions:

- To monitor the taccavi loan offered by the Government in a serious manner.

- Co-operative credit societies should be organised to make it efficient and purposeful for delivering the best in terms of rural credit. Moreover, these societies may be transformed into a multi-purpose society with sufficient funding capacity.

- Middlemen existing between credit agencies and borrowers should be eliminated.

- Reserve Bank of India should arrange sufficient fund so that long term loans can be advanced to the farmers.

- Power and activities of the Mahajans and moneylenders should be checked so as to declare an end to the exploitation of farmers.

- The banks should adopt procedural simplification for credit delivery through rationalisation of its working pattern.

- In order to check the fraud practices adopted by the farmer, for getting loans from different agencies by showing same tangible security, a credit card should be issued against each farmer which will show the details about the loans taken by them from different agencies.

Credit should also monitor the actual utilisation of loans by developing an effective supervisory mechanism.

CONCLUSION:

Today, agriculture in India faces an even more demanding challenge: to grow agri-produce sustainably, inclusively and responsibly. This can be achieved when all the stakeholders align their policies and actions towards the SDGs. As far as financing of agriculture is concerned, going forward, banks will have to integrate 'sustainability' into their business strategy and decision-making processes in order to support environmentally responsible and sustainable projects in the agriculture sector. For this, banks will have to undertake innovative agricultural financing models so that environment friendly and sustainable projects can be supported.

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